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Canada. Dept. of the Secretary
of State

Discussion paper - a bill
to effect amendments to the
Canada Student Loans Act

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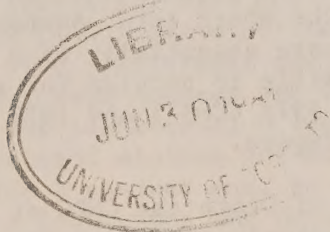
Government
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DISCUSSION PAPER

A Bill to effect amendments to the Canada Student Loans Act

Sponsoring Minister: Secretary of State

January 1981



A BILL TO EFFECT AMENDMENTS TO THE CANADA STUDENT LOANS ACT

A. OBJECT

The object of this paper is to describe proposed amendments to the Canada Student Loans Act.

B. BACKGROUND

The Canada Student Loans Act was enacted in 1964 and provides for loan assistance to full-time students enrolled in post-secondary educational institutions who can establish a need for assistance to meet the educational costs involved.

The Program is available to students in all provinces, except Quebec which opted out and receives a compensatory Alternative Payment. Applications for assistance are submitted to, and processed by, participating provinces which issue to successful applicants a Certificate of Eligibility authorizing the amount of loan for which the applicant qualifies. Certificates of Eligibility are then used by the student to arrange a loan at any Canadian chartered bank or other designated lender.

The government guarantees lenders against losses due to default in repayment. When the claim for loss is paid the debt becomes due the Crown. When a claim for loss has been paid, the government uses the services of commercial collection agencies to collect amounts owed the Crown. As a last resort, where a debtor, although able to repay his loan, refuses to do so, the account is referred to the Department of Justice for legal action to recover the debt.

The Act itself has been amended only once, in 1970. However, changes in the loan limits were effected through Appropriations Acts in 1972 and 1975.

The Council of Ministers of Education, Canada, (CMEC) has concerned itself, inter alia, with the requirements of post-secondary students for assistance in achieving their educational goals. Officials of the Department of the Secretary of State and of the Department of Finance participated in a federal/provincial task force on student aid in 1975-1976, the deliberations of which resulted in a submission to the Secretary of State in 1976 by CMEC suggesting major modifications to student assistance programs and, for the short term, amendments to the legislation which were essentially of a technical or updating nature. Bills to provide for such amendments were introduced in 1978 (C-37) and 1979 (C-39) but died on the Order Papers.

The Secretary of State and CMEC at a meeting on October 22, 1979, jointly agreed to the establishment of a Federal-Provincial Task Force to examine the total question of student assistance, including debt-load, portability and accessibility to post-secondary education. Since any legislative changes which might be required as a result of the Task Force's Report could not take effect in time for

the 1981/82 academic year, the Secretary of State undertook to advance technical amendments essentially in line with those in the previous bills at the earliest opportunity. This paper describes the changes to the Act which should be effected very early in 1981 to permit implementation by the next loan year (commencing 1 August 1981) to maintain the effectiveness of the Canada Student Loans Program pending the outcome of the task force's deliberations.

C. FACTORS

Set forth below are factors calling for amendments to the legislation:

1. Loan Limits

The current loan limit is \$1800 per academic year (minimum of 26 weeks study) or, for students following a semester system, \$900 per semester (13 weeks study minimum). Thus, in 52 weeks (4 semesters), a student following a semester system could qualify, at least theoretically, for a total of \$3600 in loans while a student enrolled in a single period of study of 52 weeks would be restricted to the \$1800 maximum. Another less theoretical example of the variations which can occur is that, under the current provisions, students following a course involving a relatively short academic year (say 26 weeks) qualify for the same maximum loan as students studying for, say, 48 weeks. Clearly, the system is inequitable in that it does not relate the maximum loan available to the length of the period of study -- the prime determinant of costs of the student since living expenses are the major element in those costs.

2. Course Length

The provisions of the current legislation were designed primarily to meet the requirements of students at the university level. Developments in the field of post-secondary education since 1964, when the program was initiated, have led to increased enrolments in technical/vocational type courses as compared with traditional university degree courses. Many such courses are shorter in length than the traditional university academic year. The current minimum course length of 26 weeks in which a student must be enrolled to qualify for a loan under the Canada Student Loans Act excludes students participating in such shorter courses.

3. Administrative Factors

- a) The Canada Immigration Act, 1976, has made inapplicable the current requirement that applicants with permanent

resident status must have been in Canada for 12 months before becoming eligible for assistance under the program.

- b) The current legislation, while providing that applicants who make false statements in applications may be fined, does not provide for the withholding of benefits (loans and interest-free status) from those who deliberately abuse the program.
- c) The current legislation provides that loans must be repaid within a maximum of 10 years after a student borrower ceases post-secondary study. The liability of the minister under the guarantee provisions of the legislation is unduly prolonged when student borrowers with small total debts insist on the maximum repayment period rather than shorter periods related to the size of the debt and the borrower's ability to pay.
- d) A number of technical items respecting the calculation of alternative payments paid to provinces which may chose to operate their own separate loan program, the time within which prosecutions must be commenced, the steps to ensure prompt submission of claims by lenders and the start date of the loan year (currently July 1) require updating in the light of administrative experience gained.

D. PROPOSED SOLUTIONS:

1. Loan Limits

Expressing the current loan limit of \$1800 on a weekly basis would avoid the inequities pointed out in C.1. above. The highest proportion of students (some 43%) are involved in courses having a 32 week annual duration. Fixing the loan limit, expressed on a weekly basis, at \$56.25 (the result of dividing \$1800 by 32) would leave the annual loan limit unchanged at \$1800 for those students. According to the data on current borrowers, a loan limit of \$56.25 per week would increase the maximum aid available proportionately for all students (51%) in courses longer than 32 weeks annually. To avoid reducing the maximum loan now available to students in 13 - 15 week semesters (\$900) and in 26 -31 week academic years (\$1800) the amendments provide that students in such periods of study shall continue to be eligible for assistance to meet their established need within those limits.

With the current annual loan limit fixed at \$1800 less than 1% of all student borrowers have acquired a debt load of \$9800 -- the amount which an individual can, in a lifetime, borrow under the program. The average loan amount borrowed per individual since inception of the program in 1964 is \$1250. The average debt load of the most recent graduates is \$1520. Relating the annual loan limit to the number of weeks of study will increase this average somewhat.

2. Course Length

Reducing the minimum eligible course length to 12 weeks would make provision for those students at community colleges and at other technical/vocational schools not presently eligible. Currently students are eligible for assistance in courses which are at least 26 weeks in length or for a part of such a course which is at least 13 weeks in length. This proposal will make eligible all students in courses which are at least 12 weeks in length. It is estimated that some 6,000 students would become eligible for assistance as a result of this proposal.

3. Administrative Changes

The following administrative changes are proposed:

- a) To remove the current requirement for a 12-month waiting period before immigrant students with permanent residence status, formerly known as landed immigrant status, may apply for assistance. The original purpose for a 12-month waiting period was to prevent students in Canada on student visas converting to permanent resident status in order to become eligible to apply for loan assistance. This procedure is not now possible under the new Immigration Act and only immigrant students who are officially classified with permanent residence status upon entry into Canada are eligible for loan assistance. Those students who come only to study, with no intention of settling in the country, are not eligible.
- b) Provide authority for the Governor-in-Council to make specific regulations to withhold benefits (loans and interest-free status) from students who have, without just cause, defaulted and whose loans have been paid by the Government under the guarantee provision of the legislation.
- c) Provide authority for the Governor-in-Council to make regulations to relate maximum repayment periods to size of the debt within the statutory maximum of 10 years.
- d) Provide for the following technical changes:
 - Change the commencement of the loan year from July 1 to August 1 to conform with the fiscal quarters of lenders.
 - Change the definition "Minister" to read "Secretary of State" to reflect the transfer of the program from the Department of Finance which was effected on 1 December, 1977.
 - Revise the formula for calculating the Alternative Payment to include in the calculation collection costs paid to collection agencies and to make technical changes with respect to the opting out formula.
 - Extend to six years (from three years) the period within which prosecutions

under the legislation must be commenced. The commission of an offence (which usually relates to data submitted on an earlier application for assistance) may not come to light up to six years after the offence was committed.

- Provide authority for the Governor-in-Council to make regulations to encourage prompt submission by lenders of default claims. Failure to submit claims promptly can result in considerable accumulation of interest on the account and thus heavier cost to the government in settling the claim.

E. FINANCIAL CONSIDERATIONS:

The costs involved in this program are related to interest charges on outstanding loans, the value of defaulted loans paid out by the government, the collection costs incurred in recovering such loans and the value of the Alternative Payment to the province which has chosen to operate its own loan program.

Forecasts of costs of the proposed amendments are difficult to make particularly now because of the current volatility of interest rates. The estimates made below are based on an interest rate of 14% and current default, recovery and participation rates.

The cost of the proposed amendments is estimated at \$5.48 million the first full fiscal year after the amendments come into effect. Costs in subsequent years will increase annually to an estimated \$10 million after four years, when they could be expected to level off at about that figure per annum.

F. CONCLUSION:

There is a number of technical and updating changes to the Canada Student Loans Act which could and should be implemented as soon as possible. The implementation of these changes would not prejudice any action which might flow from the work of the Federal-Provincial Task Force which is currently examining in detail the whole question of assistance by governments to needy students.

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